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**BAY MILLS**

*Corp report*

# ANNUAL REPORT

for the year ended July 31, 1972

BAY MILLS LIMITED — MIDLAND — ONTARIO — CANADA



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HEAD OFFICE

Midland, Ontario

DIRECTORS

B. Nixon Apple, Q.C., Toronto  
 Eric H. Cerny, Montreal  
 Steven F. Cerny, Midland  
 Gustave W. Fewks, Montreal  
 J. Reg Findley, Toronto  
 John D. Loveridge, Ingersoll  
 Derek H. Mather, Montreal

OFFICERS

Chairman of the Board	Eric H. Cerny
President	Steven F. Cerny
Vice-President	Gustave W. Fewks
Secretary-Treasurer	Sydney J. Nicholls

AUDITORS

Hutchins, Mullin & Blair  
 Chartered Accountants, Toronto

LEGAL COUNSEL

Salter, Reilly, Jamieson & Apple  
 Toronto

TRANSFER AGENT

The Royal Trust Company  
 Toronto

BANKERS

The Toronto-Dominion Bank  
 The Royal Bank of Canada

STOCK LISTING

The Toronto Stock Exchange

ANNUAL MEETING

King Edward Hotel, Toronto  
 November 15, 1972



## REPORT TO THE SHAREHOLDERS

In July 1972, the Company purchased Mia Chemical Limited for a consideration of 100,847 Common Shares. After giving effect to this acquisition, the net profit for the year ending July 31, 1972 was \$407,139 compared to a restated loss of \$108,775 for the previous year. Based on the 307,832 shares outstanding, earnings were \$1.16 per share after preferred dividends compared to a loss of \$0.47 for the preceding year. On a fully diluted basis of 390,832 shares earnings were \$0.91 per share compared to a loss of \$0.37 per share in the preceding year.

Working capital at July 31st was \$1,057,827 compared with \$681,578 on the same date a year ago.

Your Board of Directors has decided that the previously followed policy of not disclosing sales revenue is no longer valid. Accordingly sales figures are being provided in this report for the first time.

In January, our subsidiary Filterfab Limited was sold to another company at book value plus a payment for goodwill.

Your Company now has three operating units as follows:—

Midland Division — Produces

woven industrial fabrics and Fiber Glass drapery and curtain fabrics.

Crenette Division — Produces non-woven industrial fabrics using an exclusive patented process.

Mia Chemical Limited — Distributes raw materials to the Reinforced Plastics Industry through branches in Quebec, Ontario and the Prairie Provinces.

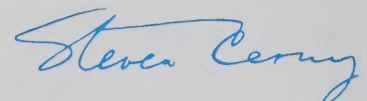
The Midland Plant is not now contributing to earnings. This is caused by a number of factors. Canada's anti-dumping legislation continues to be ineffective. Although the Department of National Revenue found that a complaint made over a year ago was justified, and although the Anti-Dumping Tribunal found that we were injured, screening is still entering Canada at prices well below fair market in the U.S.A. The strong Canadian dollar further reduces prices paid for imports. A labour shortage, partly caused by Unemployment Insurance benefits paid to those unwilling to accept available work, has resulted in serious local wage inflation and larger than normal labour turnover. Added training and lower efficiencies have tended to raise costs. Steps are being taken to rationalize the product line at Midland so that these external effects are minimized.

The cumulative Preferred Share dividend was last paid on September 15, 1970, and is now \$1.20 in arrears. A participating dividend of 26c per Preferred Share is payable on December 15, 1972. Under a Trust Deed, preferred dividends can only be paid if net current assets and earnings tests are met. These tests have now been met. Accordingly your Board will shortly give consideration as to when dividends will be resumed.

Mr. E. H. Cerny and Mr. G. W. Fewks, the founders of your Company, are retiring, and are not standing for re-election to the Board. Their foresight and vision helped build this business from very small beginnings. Their experienced advice at Board meetings will be missed. However their counsel will hopefully still be available for many years on an informal basis.

Given a reasonably good general economy, the outlook for the coming year is promising. The non-woven division is growing quickly and investment is being directed to its expansion. Mia Chemical Limited is operating at a higher level than a year ago. Management is concentrating its effort on Midland, and working on streamlining the output to reduce labour requirements.

Respectfully submitted  
on behalf of the Board



S. F. Cerny  
President

Midland, Ontario  
October 17, 1972



# BAY MILLS LIMITED

and wholly owned subsidiaries

## Statement of Earnings

Year Ended July 31, 1972

	1972	(RESTATED) ( Note 2 ) 1971
<b>SALES</b> .....	\$11,625,935	\$8,755,005
<b>EARNINGS (before undernoted items)</b>	929,394	176,056
Depreciation and amortization .....	296,677	330,258
Interest on funded debt .....	96,376	103,872
Taxes on income (recoverable) .....	221,988	(149,299)
Non-recurring income, net of Tax (note 8) .....	( 92,786)	—
<b>Net earnings (loss)</b> .....	407,139	(108,775)
Earnings (loss) per common share (307,832 shares) .....	1.16	(0.47)
Earnings (loss) per common share on a fully diluted basis (390,832 shares) .....	0.91	(0.37)

## Statement of Source and Application of Funds

Year Ended July 31, 1972

### SOURCE OF FUNDS

Net earnings (loss) .....	\$ 407,139	\$ (108,775)
Provision for depreciation and amortization .....	296,677	330,258
Increase (decrease) in deferred tax credit .....	40,000	(141,000)
<b>Total from operations</b> .....	743,816	80,483
Government grant received (adjusted) .....	1,154	( 3,490)
Decrease (increase) in other assets .....	3,483	( 183)
	748,453	76,810

### APPLICATION OF FUNDS

Net additions to fixed assets .....	243,843	59,106
Decrease first mortgage bonds .....	55,000	55,000
Decrease note payable .....	23,361	31,155
Increase note receivable, non-current .....	35,000	—
Decrease in minority interest .....	15,000	—
Dividends on preferred shares .....	—	8,850
	372,204	154,111

### NET CURRENT ASSETS

<b>Net increase (decrease) for year</b> .....	376,249	( 77,301)
Beginning of year .....	681,578	758,879
End of year .....	1,057,827	681,578

## ASSETS

## CURRENT ASSETS

	1972	(RESTATED) ( Note 2 ) 1971
Cash on hand and on deposit .....	\$ 825	\$ 21,938
Accounts receivable, trade, less allowance for doubtful accounts .....	2,423,088	1,712,382
Inventories, at the lower of cost and replacement value .....	1,972,205	1,420,586
Government grant receivable .....	33,940	—
Prepaid expenses .....	29,955	27,088
Note receivable, current portion .....	24,500	—
<b>Total current assets</b> .....	<b>4,484,513</b>	<b>3,181,994</b>

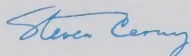
## FIXED ASSETS (at cost)

Buildings .....	1,517,185	1,517,185
Machinery and equipment .....	2,870,767	2,664,078
Furniture and fixtures .....	108,350	104,035
Leasehold improvements .....	38,087	18,777
	<u>4,534,389</u>	<u>4,304,075</u>
Less accumulated depreciation and amortization .....	2,305,519	2,022,371
	<u>2,228,870</u>	<u>2,281,704</u>
Land .....	31,960	31,960
<b>Total fixed assets — net</b> .....	<b>2,260,830</b>	<b>2,313,664</b>

## OTHER ASSETS

Note receivable, less current portion .....	35,000	—
Deposits .....	13,681	18,910
Cash surrender value of life insurance .....	6,186	4,440
<b>Total other assets</b> .....	<b>54,867</b>	<b>23,350</b>

APPROVED ON BEHALF OF THE BOARD



S. F. CERNY, Director



DEREK H. MATHER, Director

The accompanying notes form an integral part of the financial statements

6,800,210

5,519,008



# CONSOLIDATED BALANCE SHEET, JULY 31, 1972

## LIABILITIES

### CURRENT LIABILITIES

Due to bank, secured .....	\$ 995,000	\$ 675,000
Accounts payable, outstanding cheques and accrued liabilities .....	2,178,974	1,739,264
Current portion of funded indebtedness .....	78,358	86,152
Taxes on income, estimated .....	174,354	—

#### Total current liabilities .....

1972

3,426,686

(RESTATED)  
( Note 2 )

1971

2,500,416

### FUNDED INDEBTEDNESS (note 6)

1,225,000

1,303,361

### DEFERRED TAX CREDIT (note 7)

208,000

168,000

### MINORITY INTEREST (note 5)

35,000

50,000

## SHAREHOLDERS' EQUITY

### CAPITAL STOCK (note 3)

#### Authorized:

149,000 preferred shares, par value \$10 each  
500,000 common shares, no par value

#### Issued:

Preferred — 59,000 6% cumulative, redeemable,  
participating first preferred shares Series A (note 4) .....  
Common — 307,832 shares (note 1) .....

590,000

590,000

346,754

346,754

936,754

936,754

### SURPLUS

Earned surplus .....	660,782	253,643
Reserve for redemption of preferred shares .....	1,431	1,431
Capital surplus .....	10,000	10,000
Contributed surplus .....	296,557	295,403

968,770

560,477

#### Shareholder's equity .....

1,905,524

1,497,231

6,800,210

5,519,008

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1:

Acquisition — Mia Chemical Limited and its wholly owned subsidiary Park-Hannesson Ltd.

In July, 1972 the Company acquired all of the outstanding common shares and the balance of the preferred shares, other than a minority interest of 3,500 shares at \$10 each, in exchange for 100,847 common shares of the Company and \$8.65 to settle fractional shares.

On the advice of counsel and auditors this acquisition has been accounted for under the pooling of interest method. The carrying values of the assets, liabilities and shareholders' equity of the acquired companies are brought into the consolidated financial statements unchanged. No attempt is made to place a valuation on the shares issued and therefore no goodwill is recorded.

Change in outstanding common shares is summarized as follows:

	7/31/71	(RESTATED) 7/31/71	7/31/72
Number shares outstanding	206,985	307,832	307,832
Capital stock — common	\$229,900	\$346,754	\$ 346,754
Surplus	615,178	560,477	968,770
	<u>\$845,078</u>	<u>\$907,231</u>	<u>\$1,315,524</u>

Under the acquisition agreement two accounts receivable of the acquired companies are to be revalued when finally settled, or not later than July 31, 1976. The maximum number of additional shares which might be required is 24,387. In the opinion of the directors any further issue would be nominal.

### NOTE 2:

Amounts in the restated accounts as at July 31, 1971 relating to Mia Chemical Limited and Park-Hannesson Ltd. are as shown in the interim accounts of these companies adjusted for all known applicable year-end adjustments and have been reviewed by the auditors of the company who were the auditors of the acquired companies at all relevant periods.

### NOTE 3:

Outstanding common share warrants and options

	Number of Shares
Warrants with 'Series A' Bonds	
\$7.00 per share to September 1, 1974	21,000
Warrants with 'Series B' Bonds	
\$5.00 per share to September 1, 1974	
\$6.00 per share to 1979	12,000
Warrants with 7% note due July 31, 1978	
\$4.50 per share to 1973	
\$5.50 per share to 1978	50,000
	<u>83,000</u>

### NOTE 4:

Based on 59,000 preferred shares outstanding at July 31, 1972, a participating preferred dividend in the amount of \$15,340 is payable on or before December 14, 1972.

### NOTE 5:

Under an agreement with the minority preferred shareholder, the subsidiary is required to redeem the 3500 shares in the 1973 fiscal year.

### NOTE 6: FUNDED INDEBTEDNESS

	CURRENT PORTION	7/31/72	7/31/71
First mortgage bonds 'Series A'			
Sept. 1, 1984, 6½% .....	\$35,000	\$ 490,000	\$ 525,000
First Mortgage bonds 'Series B'			
Sept. 1, 1988, 8% .....	20,000	360,000	380,000
Note payable July 31, 1978, 7%		250,000	250,000
Note payable, under certain conditions, 6⅞% variable, due August 31, 1973 .....		150,000	150,000
Note payable due quarterly, 9½% .....	23,358	23,358	54,513
Mortgage payable, 12%		30,000	30,000
		<u>1,303,358</u>	<u>1,389,513</u>
Less current portion .....		78,358	86,152
	<u>78,358</u>	<u>1,225,000</u>	<u>1,303,361</u>

Covenants for the Series B Bonds restrict the payment of cash dividends in certain circumstances. At July 31, 1972 preferred dividends were in arrears in the amount of \$61,950.

### NOTE 7:

The deferred tax credit represents estimated tax deferred by claiming approximately \$416,000 of capital cost allowance in excess of that recorded in the accounts.

### NOTE 8:

During the year Filterfab Limited, a wholly owned subsidiary, sold its assets and goodwill and discontinued business. The gain on this sale amounting to \$60,000, after provision for taxes, has been included in non-recurring income.

### NOTE 9:

Fees paid to three directors amounted to \$1,450 (1971-\$750) and remuneration paid to five officers, including remaining four directors amounted to \$121,322 (1971 - \$122,207), inclusive of nominal amounts paid by subsidiaries.



# BAY MILLS LIMITED

*and wholly owned subsidiaries*

## Statement of Surplus Accounts Year Ended July 31, 1972

### EARNED SURPLUS

	1972	(RESTATED) ( Note 2 ) 1971
Balance August 1 .....	\$ 253,643	\$ 462,617
Deduct :		
Deficit of pooled subsidiaries at beginning of year .....	—	75,349
Unrealized inter-company profit in inventories .....	—	16,000
	<u>253,643</u>	<u>371,268</u>
Add:		
Consolidated net profit (loss) for the year .....	407,139	(108,775)
Dividends paid on preferred shares .....	—	( 8,850)
	<u>660,782</u>	<u>253,643</u>

### RESERVE FOR REDEMPTION OF PREFERRED SHARES

Balance August 1 and July 31 .....	<u>1,431</u>	<u>1,431</u>
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### CAPITAL SURPLUS

Balance August 1 and July 31 .....	<u>10,000</u>	<u>10,000</u>
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### CONTRIBUTED SURPLUS

Balance August 1 .....	295,403	298,893
Government grant received (adjusted) .....	1,154	( 3,490)
	<u>296,557</u>	<u>295,403</u>

## AUDITORS' REPORT

To the Shareholders of  
Bay Mills Limited:

We have examined the consolidated balance sheet of BAY MILLS LIMITED AND WHOLLY OWNED SUBSIDIARIES as at July 31, 1972 and the consolidated statements of earnings, surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the consolidated financial position of the companies as at July 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

October 19, 1972

HUTCHINS, MULLIN & BLAIR  
Chartered Accountants

## OPERATING RESULTS

	1972	(Restated Note 2*) 1971	1970
Earnings	\$ 929,394	\$ 176,056	\$ 246,268
Provision for Depreciation and Amortization	296,677	330,258	316,161
Interest	96,376	103,872	107,233
Provision for Taxes on Income	221,988	(149,299)	(111,761)
Non recurring Items	( 92,786)	—	—
Net Earnings (Loss)	407,139	(108,775)	(65,365)
% of Shareholders' Equity at Beginning of Year	27.2%	(6.7%)	(3.9%)
Per Common Share	\$1.16	(46.8c)	(49.8c.)

## BALANCE SHEET DATA

Net Current Assets	\$1,057,827	\$ 681,578	\$ 806,792
Fixed Assets less Depreciation	2,260,830	2,313,664	2,440,304
Other Assets	54,867	23,350	14,261
Net Tangible Assets	3,373,524	3,018,592	3,261,357
Funded Debt	795,000	850,000	905,000
Other Deferred Financing	673,000†	671,361†	763,516†
Shareholders' Equity	1,905,524	1,497,231	1,592,841

## FINANCIAL RATIOS

Current Assets to Current Liabilities	1.31	1.27	1.48
Net Tangible Assets to Funded Indebtedness	4.24	3.55	3.60
Shareholders' Equity to Funded Indebtedness	2.40	1.76	1.76

† Includes deferred tax credit and minority interest in 1972 and 1971.

\* 1970 and prior years not adjusted for pooling of interest.



# COMPARATIVE TEN YEAR RECORD

1969	1968	1967	1966	1965	1964	1963
\$ 635,406	\$ 578,435	\$ 422,940	\$ 243,744	\$ 4,042	\$ 258,745	\$ 280,080
235,471	165,171	171,208	170,560	132,967	75,248	57,166
92,142	41,140	43,415	45,317	31,266	6,374	16,790
154,816	196,000	105,000	—	(69,107)	60,308	82,000
5,865	—	—	—	—	—	—
147,112	176,124	103,317	27,867	(91,084)	116,815	124,124
10.6%	14.2%	9.1%	2.5%	(7.3%)	22.2%	30.0%
52.5c.	66.3c.	32.4c.	(3.9c.)	(61.7c.)	39.2c.	—
1,062,313	\$ 828,036	\$ 620,004	\$ 419,579	\$ 370,598	\$ 601,685	\$ 406,244
2,343,598	1,485,902	1,352,946	1,382,343	1,427,739	803,392	313,812
65,416	73,373	6,044	3,755	14,473	11,425	15,882
3,471,327	2,387,311	1,978,994	1,805,677	1,812,810	1,416,502	735,938
960,000	595,000	630,000	665,000	700,000	170,000	210,410
830,000 †	408,000 †	105,000 †	—	—	—	—
1,681,327	1,384,311	1,243,994	1,140,677	1,112,810	1,246,502	525,528
1.82	1.84	1.60	1.35	1.32	2.25	2.04
3.62	4.01	3.14	2.71	2.59	8.33	3.49
1.75	2.33	1.97	1.72	1.59	7.33	2.50







**BAY MILLS LIMITED**

MIDLAND

ONTARIO

**I N T E R I M  
R E P O R T**



Nine Months Ended April 30, 1972

# INTERIM REPORT

## TO SHAREHOLDERS

## BAY MILLS LIMITED and wholly owned subsidiary

(UNAUDITED)

### STATEMENT OF EARNINGS

Nine Months Ended  
April 30, 1972 April 30, 1971  
(\$000) (\$000)

EARNINGS (before under-noted items)		
Depreciation	\$271	\$ 28
Interest on funded debt	198	230
Taxes on income	69	76
		(140)

### NET EARNINGS (Loss)

	\$ 4	\$ (138)
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### STATEMENT OF SOURCE AND APPLICATION OF FUNDS

#### SOURCE OF FUNDS

Net earnings (loss)	\$ 4	\$ (138)
Provision for depreciation	198	230
Increase (decrease) in deferred tax credit		(140)
Total from operations	202	(48)
Decrease (Increase) in other assets	(3)	2
Contributed surplus — Area development grant		(4)

The payment of the purchase price will basically involve the allotment of Bay Mills common shares at their book value, as determined by audit, at July 31st, 1972. Bay Mills' fiscal year end. It is presently estimated that the transaction will involve the issuance of approximately 100,000 common shares of Bay Mills.

The acquisition of Mia is expected to contribute substantially to the consolidated earnings of Bay Mills.

STEVEN F. CERNY,  
President

#### APPLICATION OF FUNDS

Net additions to fixed assets	\$ 76	\$ 51
Decrease in first mortgage bonds	55	55
Decrease in notes payable	23	23
Dividends on preferred shares		9

	\$154	\$ 138
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#### NET CURRENT ASSETS

Net increase (decrease)	\$ 45	\$ (186)
July 31st	675	807
April 30th	\$720	\$ 619

Midland, Ontario

June 19th, 1972

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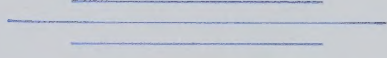
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**BAY MILLS LIMITED**

MIDLAND

ONTARIO

I N T E R I M  
R E P O R T



Six Months Ended January 31, 1972

Nichols -  
[Handwritten signature]

INTERIM REPORT

TO SHAREHOLDERS

Baron's for me  
Weaver  
Fabrics

Unaudited results for the first six months of the current fiscal year to January 31st, 1972, are as follows:

Sales are up 37% compared to the same period last year.

Loss is \$9,000 compared to a loss of \$108,000 last year.

Working capital is \$690,000 compared to \$625,000 at the same time last year.

Some of the highlights of the fiscal year to date are:

1. Commercial development of our LITHODYE process on glass drapery fabrics. It is gaining trade acceptance quickly.
  2. Our non-woven division has become an approved source, and received orders from the automobile industry for the 1973 model year.
  3. Sale of our subsidiary Filterfab Limited to one of its suppliers.
  4. We signed a new one year agreement with our employees' Union.
  5. We complained about the dumping of fibreglass window screening by an American owned importer. It is likely the Anti-Dumping Tribunal will hear our complaint and stop this unfair competition.
- We expect somewhat better results in the second half.

St Catherine's  
STEVEN F. CERNY  
President

705  
526-7867

Midland, Ontario  
March 27, 1972

BAY MILLS LIMITED  
and wholly owned subsidiary

STATEMENT OF EARNINGS (UNAUDITED)  
Six Months Ended  
Jan. 31, 1972 Jan. 31, 1971  
(\$000) (\$000)

EARNINGS (before under-noted items)		
Depreciation	\$158	\$ (16)
Interest on funded debt	130	152
Taxes on income	46	52
	(9)	(112)
NET EARNINGS (Loss)	\$ (9)	\$ (108)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
SOURCE OF FUNDS

Net earnings (loss)	\$ (9)	\$ (108)
Provision for depreciation	130	152
Increase (decrease) in deferred tax credit	—	(112)
Total from operations	121	(68)
Decrease (Increase) in other assets	3	(4)
	\$124	\$ (72)

APPLICATION OF FUNDS

Net additions to fixed assets	\$ 38	\$ 30
Decrease in first mortgage bonds	55	55
Decrease in notes payable	16	16
Dividends on preferred shares	—	9
	\$109	\$ 110

NET CURRENT ASSETS

Net decrease	\$ 15	\$ (182)
July 31st	675	807
January 31st	\$690	\$ 625